FEBRUARY 15, 1996

AT&T NEWS

NEWSBRIEFS

PATRICIA HARRIS, right, vice president, Network Engineering Services, has received the company's 1995 Catherine B. Cleary Management Award, named for the first woman to serve on the AT&T Board of Directors. Cleary, left, joined AT&T Chairman Bob Allen in presenting the award, which recognizes the accomplishments of an outstanding woman manager.

LUCENT TECHNOLOGIES—an "empty vessel" name to be defined by the people of the communications systems and technology company—burst forth Feb. 5. (Story page 3.)

REVENUES ROSE 6 percent for the year, reflecting strong operations, but third- and fourth-quarter charges for restructuring reduced 1995 profits to 9 cents per share. (Story page 2.)

A REFOCUSED AND RENAMED NCR is building on what it does best—serving large customers and offering solutions for the retail, financial and communications industries. (Story page 4.)

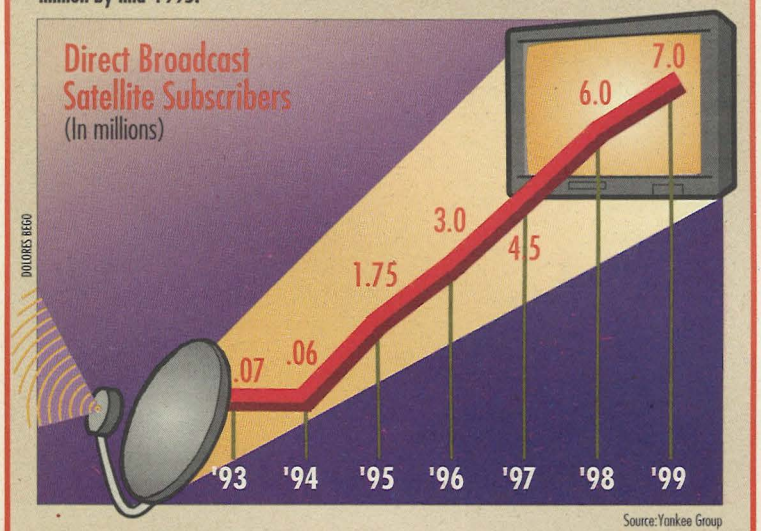
IN A MOVE TO INCREASE PROFITABILITY, AT&T Consumer Products will close all Phone Center stores and distribute its products through other retailers and communications service providers. (Story page 6.)

QUALITY LEADERSHIP MOMENTUM, established at AT&T, continues to build in the three new companies. Why? It works. (Story page 7.)

MARKETPLACE

Statistics That Are Shaping AT&T's Future

Since its inception in 1993, the direct broadcast satellite (DBS) industry has experienced 1,000 percent growth, rising from fewer than 100,000 subscribers to more than 1.2 million by mid-1995.



Source: Yankee Group

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Deal Puts AT&T in Entertainment

COURTESY DIRECTV, INC.

A DIRECTV system features an 18-inch dish, set-top box receiver and a remote control for up to 200 channels of digital programming.

BY ED LOPEZ

GAINING INSTANT ENTRY into advanced home-entertainment services, AT&T reached a strategic marketing and distribution partnership with DIRECTV, Inc., the nation's leading direct broadcast satellite (DBS) service.

The agreement gives AT&T the opportunity to market a unique and innovative service to its customers while sidestepping the mammoth cost and delay of developing a satellite broadcast network from scratch.

DIRECTV® now delivers 175 channels out of 200 possible of digital entertainment—including a wide array of sports, movies and news programming—to owners of the DSS® system, which features an 18-inch dish, set-top box receiver and remote control.

AT&T plans to begin offering the DIRECTV service and DSS equipment to its 90 million customers by mid-summer. The company is considering including DIRECTV in its *True Rewards* program for loyal customers and providing financing to AT&T long-distance cus-

See AT&T, page 3

Legislation Signals New Era

BY PAT RUSSO

WHEN THE HOUSE AND Senate approved landmark legislation on Feb. 1 that reformed the nation's 61-year-old telecommunications law, the industry shifted. Local telephone and cable monopolies were declared open to competitors, strict requirements were set for the Regional Bell Operating Companies (RBOCs) to enter the long-distance market, and consumers were offered the benefits of competition and choice.

For AT&T, the legislation is the culmination of years of intense efforts. AT&T Chairman Bob Allen said the bill represents "a solid balance that will move the industry toward full competition." Allen congratulated leaders in the House, Senate and the Clinton administration for "this significant bipartisan achievement."

The bill establishes a new framework for the telecommunications industry, Allen said. "This will allow us to move the battle from one of policy debate to the marketplace, where customers choose winners and losers based on who offers the best and most innovative services at the best price," he said. "We're confident that we can succeed in this arena."

By combining some of the best pro-competitive aspects of the two bills passed in the House and Senate last summer, the legislation significantly reduces the risk that the RBOCs could use their monopolies to harm competition in the long-distance market. For example, before a Bell company can enter the long-distance arena, it must fully implement a checklist of items that encourages competition in the local market. These include assuring that customers don't have to change their telephone numbers if they switch local carriers, or dial extra digits for in-state, long-distance calls.

Bell companies also must provide potential competitors with access to their networks at cost and resell their retail services to them at wholesale rates.

Before entering the long-distance market, a Bell company must face real competition from another carrier that uses separate network facilities to offer local-exchange service. When all of these conditions are met, the Federal Communications Commission, in consultation with the Department of Justice, will conduct a broad public-interest review before permitting the Bell company's entry into the long-distance market. ■

AROUND AT&T

PRODUCTS UNVEILED AT COMNET

Business Communications Systems introduced during the ComNet show a phonefraud guarantee that requires no deductible, no cap and no monthly fee for its *DEFINITY* Enterprise Communications System, System 75 and System 85. In addition, AT&T unveiled an easy-to-use, toll-free service that lets subscribers stay reachable virtually anywhere, without having to program their phones and with no limits on the type of phone they can use to connect to callers. AT&T also announced a dedicated Internet offer for business customers, called AT&T *WorldNet* Managed Internet Service.

FIVE-STAR RATING

AT&T Business Network, the online service for business professionals, has received a five-star rating—the highest rating—from *PC Computing* magazine. The review of AT&T Business Network appears in the February 1996 issue, and deems AT&T Business Network "hands-down the most flexible online business resource." The review compares AT&T Business Network with Reuters Business Briefing and rates the products based on usability, usefulness, technology and overall value.

MWBE GOALS SURPASSED In 1995, AT&T purchased more from minority- and women-owned businesses than ever before—$1.5 billion—and ended up achieving this program's five-year goal in two years. AT&T set its MWBE five-year goal in 1993 as part of its accelerated diversity strategy. The goal was to increase MWBE purchases by 10 percent annually. By year's end 1995, AT&T had increased MWBE purchases by 44 percent over 1994.

DISASTER PREPAREDNESS

JULIE PACE

To coincide with the anniversary of the 1995 earthquake in Northridge, Calif., The American Red Cross and AT&T have released a new earthquake preparedness education program called Living With Earthquakes. The program, made possible by a grant from the AT&T Foundation, provides vital information in several languages on earthquake preparedness and personal safety. The program was developed from research conducted after the earthquake. A key finding: the injury rate was higher for residents who are taught to flee buildings during earthquakes rather than remaining inside.The video-based, one hour workshop is designed to be presented in a community setting by knowledgeable volunteers.

PHONE CENTER DISCOUNTS

Employees can take advantage of significant price reductions while their local Phone Center stores remain open. Discounts are available, while supplies last, on a full line of corded and cordless phones, answering systems, home-office products and supplies. Prices apply to in-store sales only, and items must be purchased for personal or gift use—not for resale. The Phone Center reserves the right to limit quantities and there are no refunds or exchanges. Employees are required to show their AT&T badge and provide their Social Security number at the time of purchase. Act quickly: nearly 100 of the 338 Phone Center stores nationwide are due to start closing on Feb. 15.

MULTIPOINT BROADCAST SERVICE DISCOUNT

AT&T has cut by 40 percent the price it charges radio stations to connect to its Multipoint Broadcast Service, making "radio teleconferencing" a cost-competitive alternative for broadcast distributors. By reducing connection fees from 32 cents a minute to 19 cents, AT&T has made the service less expensive than satellite distribution of a broadcast for events with fewer than 40 outlets. Customers who wish further information or who wish to reserve a broadcast bridge, call 800-367-7956.

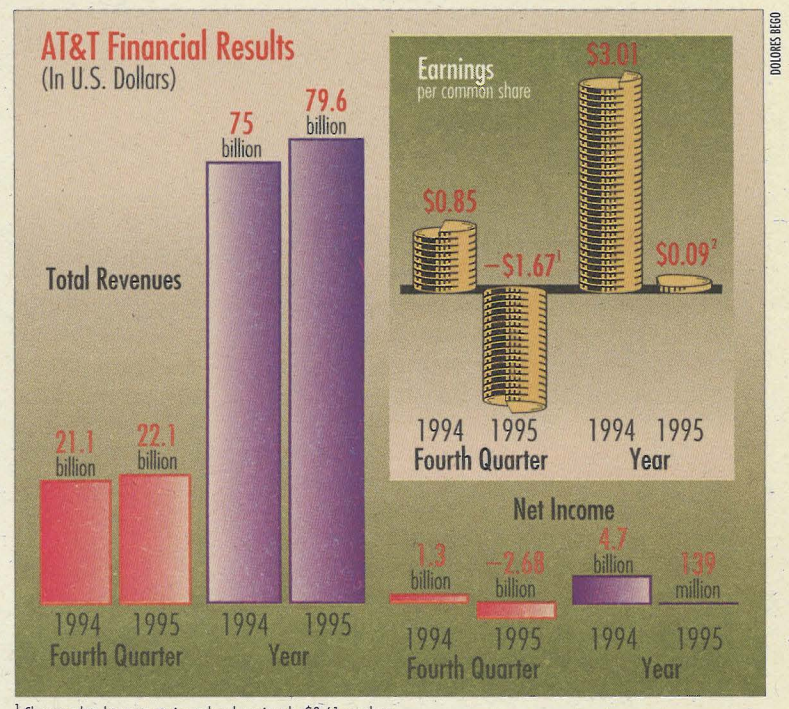
HOT PRODUCTS

Bell Laboratories' Plan 9 operating system and AT&T's 800 Multimedia Service were named "Hot Products" in *Data Communications* magazine's January issue. Plan 9, developed by the makers of the UNIX® operating system, allows desktop or laptop computers to hook directly up to powerful servers that process data and store it in the form of files. AT&T 800 Multimedia Service was recognized as one of the first toll-free services that deliver digital voice, data and video to callers. The service enables companies to establish call centers to handle a range of applications, including file transfers, multimedia exchanges and videoconferencing.

SPRINT PCS CONTRACT The Sprint Telecommunications Venture has awarded contracts to Network Systems and Northern Telecom to supply Code Division Multiple Access (CDMA) personal communications equipment and services for the venture's nationwide wireless network. Network Systems has been awarded approximately 60 percent of the venture's markets, representing more than 90 million potential customers. Total expenditures under the contracts may exceed $3 billion for the initial buildout.

FCC RULING ON 888 PREFIX

The Federal Communications Commission (FCC) has ruled on guidelines for the implementation of the new toll-free prefix, 888. Reservations for most 888 numbers began on Feb. 10 with 888 service to start on March 1. The FCC deferred a decision on whether current owners of 800 vanity numbers will have any special claim on the 888 versions of the same numbers. Until that decision is made, those numbers will not be available to customers. Each carrier will receive four times its current weekly allotment of 800 numbers. The FCC also deferred a decision on the eventual ownership of the toll-free directory assistance. For now, 800 and 888 toll-free directory assistance stays with AT&T. AT&T has actively educated the public about 888 service, and views the FCC ruling as good news for the entire toll-free industry.



DOLORES BEGO

[1] Charges related to restructuring reduced earnings by $2.61 per share.
[2] Charges related to restructuring reduced earnings by $3.36 per share.

Fourth Quarter Earnings Increase Before Charges

BY ED LOPEZ

AS THE FINAL CHAPTER OF 1995 came to a close, AT&T's financial results showed core businesses in a position of strength and also reflected significant adjustments aimed at ushering in a new era for AT&T.

The numbers mirrored a cascading series of actions within AT&T, triggered by the stunning announcement last September that the company was breaking up into three distinct companies.

For all of 1995, revenues rose 6 percent to $79.61 billion compared to $75.09 billion in 1994. The AT&T network also carried a record 61.6 billion calls, an increase of 10.8 percent over volumes the previous year.

However, restructuring charges in the third quarter of 1995 related to the turnaround at NCR, and further charges in the fourth quarter that had been previously announced, reduced overall earnings for the year.

For all of 1995, net income was $139 million or 9 cents per share. In 1994, net income was $4.71 billion, or $3.01 per share.

Had there been no charges in 1995, the company would have earned $5.49 billion or $3.45 per share.

"Short-term profitability is important, but long-term growth and financial strength are essential," said AT&T Chairman Bob Allen. "The year's charges reflect our top priority to create three independent companies that are fundamentally healthy and capable for the long haul."

When it announced the breakup, AT&T said the restructuring was needed to compete more effectively in a marketplace that is undergoing rapid and sweeping changes.

"We did not really have a choice in restructuring the business—only an option on when," Chief Financial Officer Rick Miller told financial analysts. "We decided to take these actions from a position of strength, rather than one of weakness."

The company incurred a pretax charge of $6.25 billion in the fourth quarter to cover the cost of asset write-downs, employee-separation costs, facility closings and other items.

That charge reduced earnings by $4.18 billion or $2.61 per share, with the net result being a loss of $2.68 billion or a negative $1.67 per share. Excluding the charge in the fourth quarter, net income was $1.5 billion or 94 cents per share.

Growth in AT&T's long-distance, wireless and equipment businesses helped propel fourth-quarter revenues nearly 5 percent higher to $22.13 billion.

A year earlier, fourth quarter revenues were $21.11 billion and net income was $1.34 billion or 85 cents per share.

Revenues from telecommunications services increased 6.5 percent for the quarter to $12.04 billion and 6 percent for the year to $47.28 billion.

Wireless services revenues, included in telecommunications services, grew nearly 26 percent from $629 million to $792 million for the quarter and more than 28 percent for the year to $2.93 billion.

Also during the quarter, Wireless Services added more than a half million subscribers to bring the total to more than 5.5 million.

"This represents an increase of 37 percent compared to last year at this time," Miller told ana-

See EARNINGS page 5

AT&T Gains Rapid Entry into New Industry

continued from page 1

tomers for the system through the AT&T Universal Card.

"What we've done in one fell swoop is to establish ourselves with a national presence in entertainment," said Joe Nacchio, executive vice president of AT&T's Consumer and Small Business Division.

Under the agreement, AT&T is acquiring 2.5 percent of the equity in DIRECTV for $137.5 million. AT&T has the option to increase its investment to up to 30 percent over five years, depending primarily on the number of new DIRECTV subscribers that AT&T enrolls over specific time periods.

These options are priced to recognize AT&T's contribution to the increased value of DIRECTV, and reflect discounts to future fair market value.

AT&T will be responsible for billing the service to subscribers it enrolls, integrating DIRECTV charges with other AT&T charges.

"Our alliance with AT&T provides us with an extremely powerful marketing and distribution channel through which we can generate incremental sales and complement the more than 20,000 consumer electronics retailers and satellite dealers that will continue to sell DIRECTV programming and the DSS system," said Eddy Hartenstein, president of DIRECTV, a unit of Hughes Electronics Corp.

Hartenstein said the current distribution channel has already delivered more than 1.25 million subscribers in 18 months, making DIRECTV and the DSS system the fastest-selling new product in the history of consumer electronics.

DIRECTV began service in select areas of the United States in the summer of 1994, with full national availability achieved in October of that year.

DIRECTV programming is distributed by three high-power HS 601 satellites built by Hughes Electronics.

Market analysts said the combination of AT&T's powerful brand and DIRECTV's market leadership would give a big boost to entertainment services via satellite.

"AT&T's entry is going to make this industry fly a lot faster than it would have otherwise," said John Aronsohn, an analyst at the Yankee Group.

The agreement makes AT&T the only national telecommunications company that markets and distributes DIRECTV in the continental United States.

AT&T plans to offer DIRECTV to its own customers and others anywhere in the United States where it is technologically and economically feasible, except in select rural areas where telephone and electric co-ops may have exclusive rights.

AT&T and DIRECTV also plan to jointly develop new multimedia services for DIRECTV.

In a news conference, Nacchio told reporters that the alliance with DIRECTV was an effective and rapid way for AT&T to gain a foothold in broadband entertainment and information applications.

He said bidding for the remaining DBS slot at a Federal Communications Commission auction would have cost several hundred million dollars for the license alone, possibly upwards of $1 billion to create the infrastructure and a two-year lag in bringing a service to market. MCI won the final DBS license on Jan. 28, paying $682 million (see related story below).

"With this alliance, our time to market will be measured in months, not years," Nacchio said. "In fact, we'll be bringing our customers this new and exciting service almost before the ink dries on the FCC license." ■

MCI Digs Deep into Pockets for License

MCI Communications took a separate path into direct broadcast satellite service by paying a hefty $682 million with partner News Corp. in an FCC auction for the last unclaimed orbital slot.

"After today's bid I felt a lot better about our deal," Joe Nacchio, executive vice president of AT&T's Consumer and Small Business Division, told a CNN interviewer on the day the bidding concluded.

Some Wall Street analysts were skeptical about how well the auction winner may fare with its strategy. They cited the steep price for the license, an investment of $1 billion to build and operate a satellite system, plus the fact that MCI will be years behind several rivals, all of which either can or will beam more than 150 channels of programming in the next few months.

"I'm scratching my head, trying to figure out where they are going," said Daniel P. Reingold, a telecommunications analyst with Merrill Lynch.

BRIGITTA HANGGI

Lucent Technologies executives Rich McGinn, left, and Henry Schacht display the flag bearing the new company name and logo that now flies over company locations around the world. The company's first employee broadcast featured a flag-raising at the Lucent Technologies headquarters in Murray Hill, N.J.

Research, Focus Groups Yield Distinctive Name

BY ED LOPEZ

AFTER MONTHS OF ANTICIpation and sifting through more than 700 names, Lucent Technologies was selected as the formal name for the new systems and technology company that AT&T formed as part of its plan to split into three publicly traded companies.

Lucent is defined in the dictionary as "marked by clarity" or "glowing with light."

In other major milestones, Lucent Technologies announced its board of directors and filed a registration statement with the Securities and Exchange Commission for its planned public offering of shares in the new company.

The new name was announced Feb. 5 during an employee satellite broadcast to 280 sites from Murray Hill, N.J., the headquarters for Lucent Technologies.

As part of the naming process, Lucent Technologies conducted interviews and focus groups with employees, customers, technical leaders and industry analysts around the world.

"The focus groups and interviews told us that Lucent Technologies differentiated us from AT&T and at the same time was a strong, simple, memorable name," said Henry Schacht, who has been designated chairman and CEO for the company. "It suggests clarity of thought, purpose and vision, and had a technological feel."

The company also unveiled its new symbol—a bold, red, hand-drawn circle that it dubbed "the innovation ring." The company name often will be linked with the endorsement line "Bell Labs Innovations."

Schacht told the audience that while selecting a company name was important, it was also important that the name be linked with such virtues as customer focus, value pricing, flexibility and innovation, not only in technology, but also in how the company operates.

Lucent is defined in the dictionary as "marked by clarity" or "glowing with light."

"The name itself is only what we make of it," he said.

Aside from Bell Laboratories, the company is composed of the following businesses, all of which will carry the Lucent Technologies name: Network Systems, Business Communications Systems (formerly Global Business Communications Systems), Consumer Products, Microelectronics, and Multimedia Ventures and Technologies.

Lucent Technologies also named four current AT&T board members, in addition to **Henry Schacht**, who will join the new company's board:

Carla Hills, chairman and CEO of the international consulting firm Hills & Co. and former U.S. trade representative.

Drew Lewis, chairman and CEO of Union Pacific Corp. and former secretary of the U.S. Department of Transportation.

Don Perkins, retired chairman of Jewel Companies.

Franklin Thomas, president of the Ford Foundation.

Rich McGinn, president and chief operating officer of Lucent Technologies, also will join the board. Together, the six will serve on the board once the initial public offering of stock closes in the first half of 1996.

Once Lucent Technologies is spun off from AT&T, **John Young,** former CEO of Hewlett-Packard Co., will join the board.

In leading up to the disclosure of the new company name, McGinn described to the audience the long process of selecting a name.

"One employee noted that this company personified would have the brains of Albert Einstein, the body of Hercules and the heart of Florence Nightingale," McGinn said matter-of-factly.

"So we're naming it Schacht," he added, evoking a wave of laughter.

Later, in answering employee questions, Schacht said that effective Feb. 1 Lucent Technologies began operating as a separate, stand-alone company and is a 100 percent wholly owned subsidiary of AT&T.

The sale of about 15 percent of the shares of Lucent Technologies will occur later this year, and then the rest of the company will be spun off to AT&T shareholders around September. ■

New NCR Positions Itself Ba

By Anne Wainscott

NCR WorldMark servers, such as those shown in the background, are key to the company's turnaround.

NCR IS BACK. TODAY, WITH 38,000 employees worldwide, a more nimble and more focused NCR is returning to what it does best—providing computers and services that meet the needs of large customers in all industries. The company also is focusing special attention on the needs of customers in the retail, financial and communications industries—industries where NCR has a strong market presence and technical expertise. It no longer manufactures personal computers (PCs) because of the commodity nature of the business, but has established a partnership with Intel Corp. to provide PCs as part of a complete solution for customers.

NCR's CEO, Lars Nyberg, is leading the turnaround with companywide dedication to the principles of focus, accountability, expense-level discipline, process improvements and sense of urgency. These "turnaround principles" form the foundation for NCR's plans to break even in 1996 and to achieve profitability in 1997.

NCR's range of offerings includes midrange and large computer systems; automated teller machines (ATMs); retail solutions including decision-enabling systems, departmental and in-store servers, point-of-sale workstations, scanners, signature capture devices and networking solutions; Call Center solutions; and a suite of customer support and professional services that help NCR's customers get closer to their customers. NCR also plans to leverage Bell Laboratories' research programs in areas of strategic interest through a multiyear, commercial agreement.

Here is a more in-depth look at NCR's businesses as the company carves out its future in the competitive computing market.

Computer Systems Group

NCR is first and foremost a computer company—focused on developing midrange and large computer systems—and one of the first companies to embrace open, client/server computing across all its product lines. According to the International Data Corp. (IDC), a computer industry consulting firm, NCR is the global leader in commercial UNIX® mid-range systems, which range in price from $100,000 to $1 million.

NCR has major facilities in Columbia, S.C., San Diego and El Segundo, Calif., Lincroft, N.J., and Dublin, Ireland. While NCR no longer develops PCs, it will provide PCs as part of a complete solution to customers through a supplier relationship with Intel Corp.

The cornerstone of NCR's computer business is its *WorldMark* server family, which supports three levels of parallel processing and can support numerous databases, including Teradata, Oracle and Informix. Critical to NCR's turnaround, the WorldMark family makes massively parallel processing (MPP) systems more accessible and affordable to customers, offering a basic MPP system for a third of the price of NCR's earlier MPP system, the System 3600.

MPP systems use hundreds of low-cost microprocessor chips that either work together on parts of the same problem or solve several different problems simultaneously by sending each to its own microprocessor. MPP systems increasingly are replacing slower and more costly mainframe computers. The WorldMark 5100 series is the only product available today that enables customers to grow from a single multiprocessor system to a massively parallel one without losing their investments in their existing systems.

An explosion in information technology has meant an explosion of data, leaving companies with no easy way to turn that data into useful information. Through its data warehousing capabilities, NCR provides a way for businesses to "mine" huge amounts of data for information about their customers and their business operations. NCR combined its large enterprise systems experience with the data warehousing strengths of Teradata, the company NCR acquired in 1990 and the first company to develop high-end parallel database technology. The result: NCR is now the world leader in the data warehousing market and is number one in the commercial MPP market, according to industry consultant, Gartner Group.

Worldwide Services

With global resources and a strong presence in local markets, NCR's Worldwide Services provides customers with a single source for global support. These capabilities include traditional customer support service for the maintenance and repair of hardware and software, and professional services, including Information Technology architecture, networking and data warehousing. In 1995, NCR's $3 billion services business grew much faster than the industry's 9 percent growth rate. NCR Worldwide Services attained an overall growth rate of 12 percent, including a 21 percent growth rate in professional services.

Services associates are continually on the front lines with customers, listening to their needs, identifying the information they need to be more competitive, designing and implementing their new environment, and providing ongoing support.

Analysts consider NCR to be the world leader in providing data warehousing services solutions, end-to-end networking services and designing, implementing and supporting complex, open system environments. IDC also stated that NCR services more transaction-based retail and financial systems than anyone else in the world. For these reasons, NCR sees Worldwide Services as a major contributor to the company's turnaround and future growth.

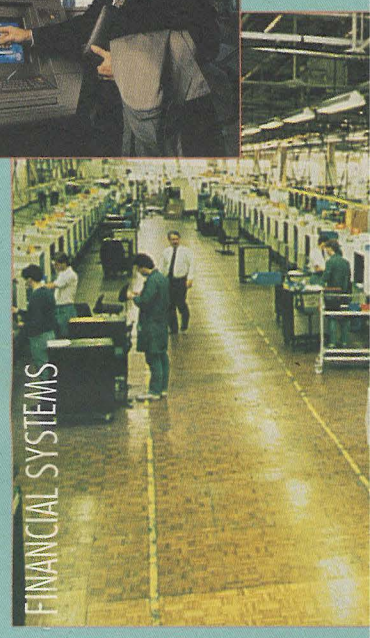
NCR Professional Services employees Peter Atallah and Pat Brown in a training class.

Financial Systems Group

A long-time industry leader in providing products, systems and solutions to financial institutions, NCR's Financial Systems Group is based in London with manufacturing and development operations in Dundee, and St. David's, Scotland; Waterloo, Canada; Oiso, Japan; and Dayton, Ohio. Its four main product areas are self-service systems, consumer delivery systems, imaging and payment systems and relationship management systems. Relationship management refers to capabilities that enable a bank to mine its information and to offer customers individualized products and services.

NCR is the world leader in ATMs, with a 33 percent market share and a presence in more than 100 countries. While ATMs focus on cash dispensing, NCR Customer Delivery Systems allow banks to provide financial services to customers anytime, anywhere. These systems provide everything from traditional branch automation to home banking, telebanking and kiosk banking, which uses video technology to allow customers to deal interactively with bank personnel 24 hours a day from remote locations.

One of NCR's fourth-generation ATMs.



NCR's ATMs are built at this manufacturing an

In addition, NCR has a 30-year history and a 25 percent market share in imaging and payment systems, which process checks and bill payments for banks. While the competition still uses mainframe systems, NCR's imaging and payment systems are client/server-based, which equate to greater efficiency and less cost for customers. NCR also has a core competency in paper-handling devices. The NCR 7780 Item Processing Transport, which handles 500 checks or other documents per minute, is considered one of the best clearing systems worldwide. NCR also is helping banks to digitize their paper images so they can manage their transactions electronically over networks, saving significantly on operating costs and generating new services for the bank's customers.

Industry analysts consider NCR the world leader and most experienced company in imple-

sed on Strengths

menting relationship banking data warehousing solutions. The company's consulting services, networking and leadership in commercial massively parallel processing enable NCR to provide financial institutions with specific solutions for high-performance marketing and profitability management.

Retail Systems Group

Ever since John H. Patterson established The National Cash Register Co. 112 years ago, NCR has had a strong and proud heritage in the retail industry. The NCR Retail Systems Group, based in Atlanta, is a growing $1.3 billion business targeting the general merchandise, food and hospitality industry segments.

NCR's 7870 Bi-Optic Scanner/Scale won the 1995 APEX Grand Award.

evelopment facility in Dundee, Scotland.

Just as neighborhood store owners of the turn of the century knew what merchandise their customers wanted, NCR is helping retailers recapture that customer intimacy through its Neighborhood Retailing portfolio of solutions. Neighborhood Retailing provides a way for retailers to mine for detailed customer data so they can better anticipate consumer buying habits. NCR currently ranks number one in these data warehousing solutions for retailers and has attracted the world's four largest retailers as customers.

NCR's retail business has more than 20 percent of the world's market of point-of-sale (POS) terminals and is the world's leading provider of slot scanners with an estimated 40 percent market share. That translates to NCR POS terminals processing more than 20 billion consumer transactions and scanners "reading" more than 270 billion items per year.

NCR is recognized by IDC as the leading provider of support services for store systems. In addition, the group's 7870 Bi-Optic Scanner/ Scale, the first scanner to read barcodes from multiple sides of a product, received the 1995 Grand Award for Excellence in Product Design from the American Product Excellence Committee.

Communications Industry

NCR is a leader in the merging of computers and communications by providing a single point of contact for the Call Center Solution through a cross-business offering from NCR, Business Communications Systems, Business Markets and selected independent software vendors. As NCR becomes an independent company, this linkage will be supported by commercial agreements and common business objectives to serve customers.

Call centers allow customers to transact business remotely 24 hours a day while providing service representatives access to customer information so they can better serve their needs. NCR's Call Center Solution allows customers to manage costs while improving their call coverage and level of service. Dataquest ranks NCR number one in Call Center U.S. market share and revenues. According to IDC, information technology spending in the communications industry will grow to an estimated $24.7 billion by 1997.

Systemedia products include thermal transfer ribbons and barcode labels.

Systemedia Group

Automated systems use huge quantities of labels, ribbons, paper rolls and custom-printed documents. NCR's Systemedia business manufactures all these consumable items involved during a transaction, everything from thermal transfer ribbons and ink ribbons to custom paper rolls and pressure-sensitive labels.

This $600 million business targets three industries: Financial Services, Retail and Consumer Goods Manufacturing. Systemedia operates 18 global manufacturing facilities, 75 percent of which have achieved the International Organization for Standardization (ISO) quality certification.

The new NCR will build upon its traditional strengths and its competitive advantages in the global marketplace to emerge as a healthy, independent company.

It is the global leader in stock and custom-paper rolls for retail point-of-sale equipment and ATMs, which aligns well with NCR's retail and financial businesses. Systemedia also has superior expertise in inking cassette design and in the design and manufacture of labels and label/form combinations.

Conclusion

With a base of dedicated employees and supportive customers, Lars Nyberg and the NCR Leadership Team have the foundation for a successful turnaround into a leaner, more focused business. The new NCR will build upon its traditional strengths and its competitive advantages in the global marketplace to emerge as a healthy, independent company. ■

Earnings Reflect Planning for Future

continued from page 1

lysts. "The net additions were the highest ever and 20 percent better than last year's fourth quarter."

Reflecting a strong rebound in sales to regional Bell companies, sales of network systems and products were 23.5 percent above the record-setting quarter a year ago, reaching $4.08 billion. Total sales also outpaced last year's all-time high by nearly 9 percent to reach $10.67 billion.

Microelectronics Sets Records

Sales of communications products to businesses and consumers increased more than 3 percent over the prior-year quarter to $1.51 billion and 9 percent for the year to $4.9 billion. Microelectronics had a second consecutive quarterly sales record and 1995 marked its best financial performance.

In financial services, revenues increased nearly 8 percent for the quarter to $964 million and nearly 20 percent for the year to $3.73 billion. AT&T Universal Card, which now has 17.6 million accounts, and AT&T Capital Corp., the largest publicly owned equipment-leasing and financing business in the United States, both contributed to the growth.

Excluding charges associated with AT&T's restructuring, NCR lost $79 million in the fourth quarter, but showed improvement from an operating loss of $169 million in the third quarter of 1995. NCR had an operating profit of $45 million in the fourth quarter of 1994.

Year of Transition

In his conference call with the financial community, Miller said 1996 would be a year of transition for AT&T as the company moves forward with the planned sale of Capital Corp., the spin-off of NCR, and the initial public offering and spin-off of the newly named Lucent Technologies.

"And, at the same time, each of these companies remains dedicated to meeting customer commitments as well as their operating and financial targets," Miller said.

As the effects of restructuring continued to reverberate within the company, outside observers were keenly aware of sweeping transformations on various fronts.

"AT&T and the entire telecom industry are on the verge of cataclysmic change," said Gary Kim, senior vice president of Probe Research in Cedar Knolls, N.J. "They are restructuring into three companies in response to the competitive challenge. We are on the brink of an extraordinary journey." ■

APA in 1995 Is 5.54 Percent

The 1995 AT&T Performance Award (APA) is 5.54 percent of individual earned base salaries for those employees in the AT&T Management Pay Plan (bands A-D) and the Technical Personnel Plan.

The 1995 award is payable in March and is based on final 1995 Economic Value Added (EVA) results that exceeded the annual target. Fourth quarter EVA was $914 million, bringing the total for 1995 to $2.435 billion or 110.7 percent of the $2.2 billion target. These results exclude charges incurred by AT&T relative to its previously announced restructuring.

EVA, the basis for determining the APA, represents AT&T net operating profit after taxes less a 12 percent charge for the cost of capital used in the business.

Individual business units or divisions will be reporting their 1995 results, including the final report on 1995 Unit Performance Awards. The February issue of *Compensation & Benefit Update* has more details about EVA performance and APA.

Profits Rise Sharply at Capital Corp.

AT&T Capital Corp.'s earnings in 1995 ballooned 27 percent to $127.6 million or $2.70 per share compared with $100.3 million or $2.14 per share in 1994. Total revenues were up 14 percent to $1.6 billion compared with $1.4 billion.

For the fourth quarter, net income totaled $42.1 million or 89 cents per share compared with $40.6 million or 86 cents per share. Total revenues rose 16 percent to $436 million compared with $377 million.

As previously announced, AT&T plans to sell its 86 percent ownership in AT&T Capital Corp. by the end of 1996 as part of its ongoing restructuring.

AT&T to Exit Retail Sales

Phone Center stores like this will close as Consumer Products shifts its focus to designing and manufacturing high-quality products for other distributors.

ENDING MORE THAN TWO decades of operating its own retail outlets, AT&T Consumer Products will close its 338 Phone Center stores and distribute its products only through various retailers and communications services providers.

Located mainly in malls and retail districts in major metropolitan areas, the stores will begin closing in February. Ninety-two stores are scheduled to close this month. Another 91 will close in March, and the remaining 155 will close in April.

Consumer Products intends to begin private-label manufacturing for communications service providers, and has made its first sale of telephones to a local telephone company.

"Reaching this decision was a difficult journey, but I'm convinced it will improve Consumer Products' profitability and strengthen us for the future," said Homa Firouztash, vice president, Marketing, Sales & Product Management. "For the past two decades, Phone Center personnel have proved that they're the best retail sales and service force in the business. But overall, the channel has not been profitable. After careful analysis, we have decided to focus our business on the design and manufacture of high-quality consumer communications products.

Changing Buying Trends

"We believe retailers that offer customers one-stop shopping for a wide range of needs can distribute our products more efficiently than we can. Consumer buying trends are changing as well, with specialty chains such as ours likely to face increasing pressure as customers shop more at large stores that carry a wide range of products."

Customers still will be able to buy AT&T telephone products at more than 17,000 outlets operated by other national and regional retailers such as Sears, Wal-Mart, Best Buy and Service Merchandise. Such retailers already account for about two-thirds of AT&T's telephone product sales annually.

Product packaging contains information that tells customers how to contact AT&T with questions, how to obtain technical support, and how to return products for repair or service. Customers may call 800-222-3111 with questions about repair or warranty service and to obtain the location of the nearest retailer offering AT&T products. Lease customers should call 800-555-8111 for any questions about their service or to obtain the location of the nearest lease service agency.

Consumer Products is part of Lucent Technologies, the company that is expected to be spun off from AT&T later this year. Job reductions and other costs associated with the closings were included in the restructuring charges AT&T announced Jan. 2.

Employees affected by the decision—approximately 420 managers and 2,050 union-represented employees—were informed during face-to-face meetings held in January.

Management and union-represented employees are eligible for career transition support that includes training, career counseling, outplacement support, six months of medical benefits, tuition support, and a leave-of-absence option for employees close to pension eligibility.

Management employees who must leave the business will receive up to 35 weeks of pay, and union-represented employees can receive up to 104 weeks of pay, both depending on length of service. ■

GLOBALVIEW

BULGARIA

SOFIA—CONSUMER MARKETS, in cooperation with the Bulgarian Telecommunications Co. Ltd. (BTC), has introduced *USADirect* Service that will provide fast and convenient telephone access between Bulgaria and the United States. As part of Bulgaria's network modernization plan, AT&T and BTC also have implemented network advancements to improve the quality and increase the capacity for direct-dialed calls between Bulgaria and the United States.

FRANCE

PARIS—NCR's Retail Systems Group won a $4.1 million contract from Carrefour, France's largest multiple retailer with interests in numerous retailing segments, to install 4,000 NCR 7870 bi-optic scanners in Carrefour hypermarkets across nine countries. Carrefour operates 115 hypermarkets in France and 100 abroad. The rollout began this month and will continue through October.

GERMANY

COLOGNE—NCR's Retail Systems Group won a $4.8 million contract to provide complete branch solutions to REWE, Germany's second-largest retailer. REWE will install complete retail solutions consisting of NCR's entry-level servers, NCR 7450 point-of-sale terminals, NCR 7880 scanners, NCR 7890 presentation scanners and personal computers in 150 of its hypermarket stores.

BOSNIA-HERZEGOVINA

TUZLA AIR BASE—AT&T has opened three calling centers at Tuzla Air Base, U.S. military headquarters for Operation Joint Endeavor, and has expanded its existing calling centers in Hungary. In addition, AT&T has reduced prices up to 40 percent on certain calls from Bosnia-Herzegovina, Croatia and Hungary. Reductions apply on calls made by members of the AT&T Military Saver Plus calling plan and for callers who use the AT&T Global PrePaid Card. AT&T also is working with U.S. Army-Europe to provide weekly "AT&T Messages from Home" in the European *Stars and Stripes*. Under this program, family members in several European-based Area Support Groups can send free printed messages to their service members deployed in Bosnia, Croatia and Hungary.

AT&T Faces Off Against U.K. Service Providers

BY ANNE WAINSCOTT

MOVE OVER BRITISH TELEcommunications (BT), there's a new communications titan making its home on Fleet Street.

In January, AT&T began its rollout of an expanded range of communications services to British companies. With this announcement, the United Kingdom. is the first country outside the United States where AT&T has acquired a license, installed facilities and started to offer services.

Initially aimed at large- and medium-sized business, AT&T Communications U.K. Ltd. will offer a choice of intelligent network-based services, including voice and video services that compliment the range of data services already offered by AT&T in the U.K. and internationally.

"Customers in the United Kingdom have told us they need real choice in telecommunication services to support their businesses," Bob Allen, AT&T chairman, said in a press roundtable. "We want to partner with those customers in ways that will enable us to tailor solutions to their specific needs."

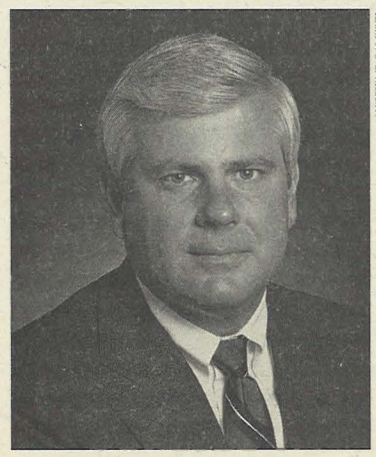
Outside North America, the United Kingdom handles the most traffic onto AT&T's worldwide network. The company applied for a public telephone operator's license three years ago, and it was awarded in 1994. With these expansion plans, AT&T hopes to generate revenues of $1 billion a year in Britain by 2000.

Royal Roots

That goal represents quite a journey for a company whose first British contact came from Alexander Graham Bell, who demonstrated his new telephone to Queen Victoria, on the Isle of Wight in 1878.

"For the new AT&T, expansion into international markets becomes even more critical, as customers continue to need global connectivity, consistency and reliability," Allen said. "Europe has made significant steps to increase competition, and the U.K. has been leading the way."

AT&T will face stiff competition in the British market from 150 licensed operators,



COURTESY AT&T ARCHIVES

Merrill Tutton, president, AT&T U.K.

including Concert, a venture between BT and MCI, and Phoenix, a joint venture between Sprint, Deutsche Telekom and France Telecom. The U.K.'s second-largest operator, Mercury Communications, also is vying for business customers.

AT&T will roll out a host of services for businesses in a phased approach: voice and data services, virtual private networks, audio and video conferencing, freephone services and broadband multimedia. AT&T eventually plans to compete directly with BT for the residential market, offering traditional communications services as well as on-line access services to consumers.

Merrill Tutton, president, AT&T U.K., expressed excitement for AT&T's future as a serious player in the U.K. telecom market. "Given the right regulatory environment and market conditions, we will begin to roll out services to a much wider audience," he said.

The first service already available is a nationwide virtual private network—AT&T Software Defined Network, which gives businesses a flexible way to manage their voice and switched data communications.

Local Partners are Key

AT&T will rely on partnerships, such as the recent interconnect agreement it signed with City of London Telecommunications (COLT) in the U.K., to gain access to the U.K.'s existing local network. AT&T also has aligned itself with other service providers in the World Partners alliance. In Europe, the company is joining forces with Unisource to create Uniworld. AT&T Communications U.K. will be World Partners' and Uniworld's distributor for *WorldSource* and Uniworld services, respectively.

To increase awareness for the AT&T brand, the AT&T Foundation has donated $165,000 to support three theater productions in London early this year.

"AT&T's increased support of the arts in the U.K. heralds our growing presence in the country," Tutton said. ■

The New Companies Commit to Build on AT&T's Quality Leadership

THE CEOs OF THE THREE new companies that will result from the restructuring of AT&T intend to build on the unprecedented quality leadership position AT&T has earned.

"We started this quality journey based on faith," said AT&T Chairman Bob Allen, "but now, we have the evidence. The results show that achievement in quality pays off for our people, customers and shareowners. And that's a lesson we're not going to forget."

Behind Allen's statement are studies that show that AT&T units with the strongest quality systems—as measured by the Chairman's Quality Award (CQA) process—have also achieved the greatest business success, as measured by CVA, PVA and EVA, key indicators of customer satisfaction, people satisfaction and financial performance.

As the leaders of the three new companies plan for the opportunities and challenges ahead, they see a continued, critical role for quality.

"Quality is a key to our success," said Henry Schacht, chairman and chief executive officer, Lucent Technologies. "No matter how good our strategies, it will be our ability to execute those strategies that determines our future. And quality offers a way to build the capabilities required."

The commitment is there. Each new company has appointed a chief quality officer: **Frank Ianna**, AT&T, **John Pittman**, Lucent Technologies, and **Rob Davis**, NCR. Each is putting a company-level quality office in place to work with the leaders of the new companies to design their quality programs going forward. They will use 1996 to adapt AT&T's quality approaches to their needs—for example, developing their own CQA-like assessments for deployment starting in 1997.

> **" ... results show that achievement in quality pays off for our people, customers and shareowners. And that's a lesson we're not going to forget."**
>
> —Bob Allen

The commitment to quality is echoed by Lars Nyberg, CEO, NCR. "When we commit to improving our processes and satisfying our customers, we are really committing to quality. Continuous improvement and customer focus are what quality is all about."

Key Contributions

The approach to quality on which the new companies will build did not come easily, despite the fact that "quality," as a science, was invented at AT&T. The company struggled, following the 1984 breakup of the Bell System, to understand the role of quality in managing a business in a competitive market.

Several milestones mark AT&T's progress. Maybe the most significant has been the CQA. Begun in 1990 and modeled on the demanding Malcolm Baldrige National Quality Award, the CQA process has given AT&T units an effective way to assess and improve their performance.

Applicants have used feedback from the process to close the critical gaps in their management systems, and some have used it extremely well. Overall, scores rose steadily and by 1995, the AT&T average score represented the level of a "sound management system." AT&T's most improved units rose to be among the world's best, and they have earned the awards to prove it: three Malcolm Baldrige National Quality Awards, two Shingo Prizes for Manufacturing Excellence and the prestigious Japanese Deming Prize.

Why has the CQA process been so effective in spurring improvement? "Units recognized that the CQA process proved to be a powerful tool in improving their business performance," explained AT&T Senior Vice President and Chief Quality Officer Ken Bertaccini. "It offered them a comprehensive look at their business management systems against some very rigorous standards. And, from the outset, AT&T's leadership placed a very high priority on valuing and recognizing units for their CQA progress and achievement."

The importance of the CQA process was underscored by AT&T's Annual Quality Conference, where participants and winners were honored in what became AT&T's premier companywide celebration event.

At the grass roots, the people of AT&T took up the challenge. Team by team across the company, people learned quality methods and applied them to solve problems and improve how they served customers, people and shareowners.

The good work will not be lost in restructuring. The 1995 CQA cycle will be completed with feedback that will help shape the new companies and a recognition luncheon in March, hosted by Bob Allen, for the leaders and quality directors representing the winning units.

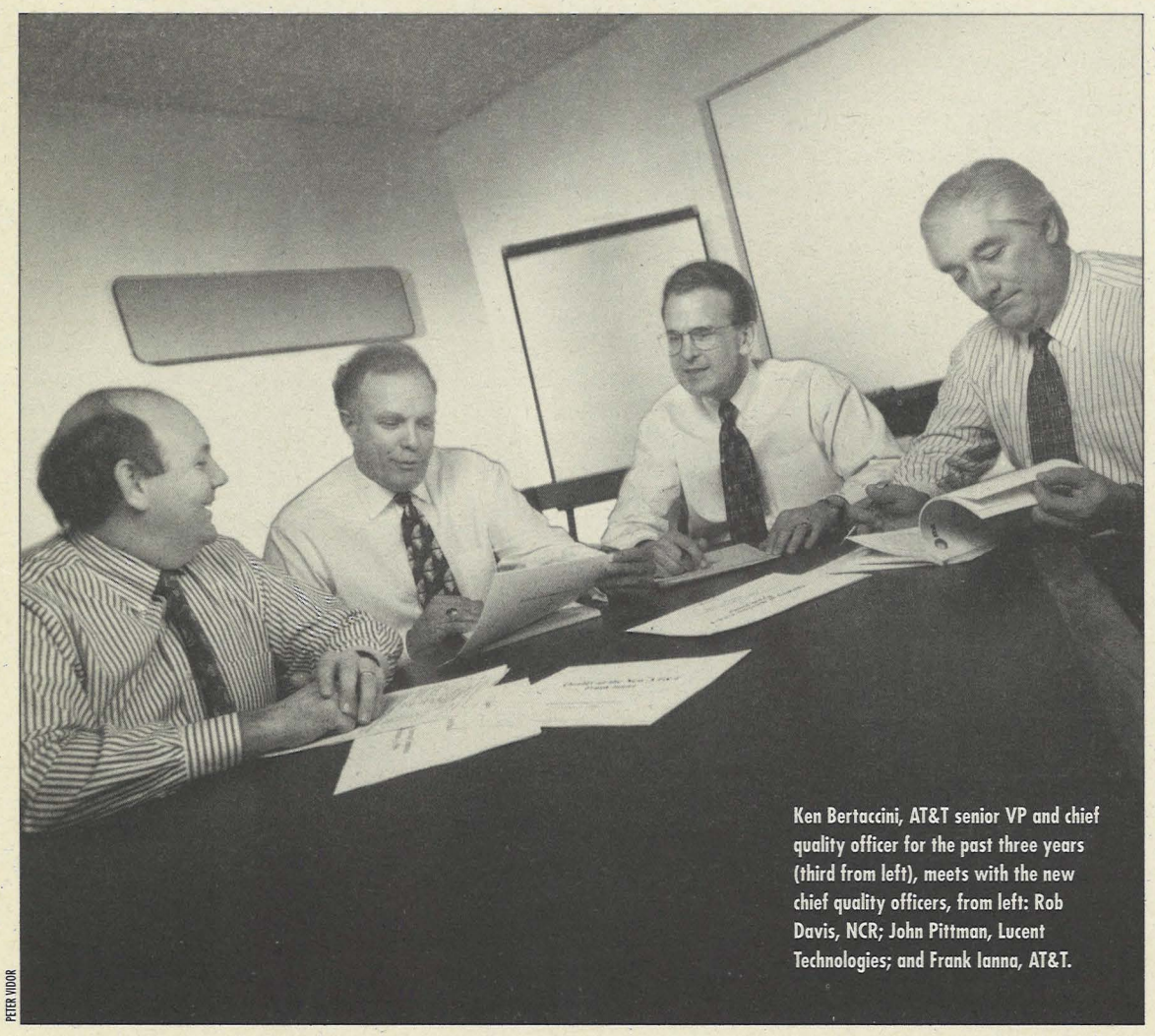
A Next Phase Initiative

CQA taught us an important lesson: quality pays off most where leaders are actively involved. Acting on this insight, Allen two and a half years ago chartered a group of officers from across AT&T—the Quality Deployment Planning Team (QDPT)—to elevate quality at the leadership table and define a new role for quality in the management of the company.

The QDPT, chaired by Bertaccini, became a model of teamwork and cross-unit collaboration. "There is no question that this team made a difference," Allen acknowledged. "They strengthened our commitment to quality and firmly connected it to business results." (See Taking Quality to the "Next Phase.")

Achieving Business Excellence

Reflecting on the accomplishments of the last five years, Allen said, "The people of AT&T have learned what quality is all about. Those lessons are critical assets the new companies take with them as they work to achieve even higher levels of business excellence for their customers, people and shareowners." ■



Ken Bertaccini, AT&T senior VP and chief quality officer for the past three years (third from left), meets with the new chief quality officers, from left: Rob Davis, NCR; John Pittman, Lucent Technologies; and Frank Ianna, AT&T.

PETER VIDOR

Taking Quality to the "Next Phase"

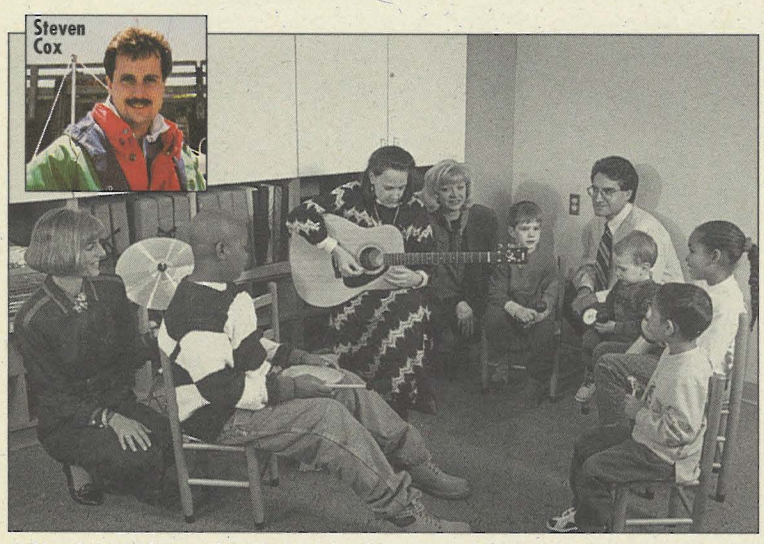
In 1993, Bob Allen chartered a team of officers—the Quality Deployment Planning Team (QDPT)—to take a "job well begun" in quality to the next level. He asked this unique cross-unit team to find new ways to integrate quality with how leaders manage the business. Working with the senior leadership team and the support of the Corporate Quality Office, the QDPT built a record of accomplishment that includes:

- **Adopting Customer-Value-Added (CVA)** as a consistent measure of customer satisfaction across the company, placing it on a par at the leadership table with other key measures of business performance.
- **Linking the Chairman's Quality Award** to the business cycle and strengthening its connection to business results.
- **Transforming the Quality Conference** into a global, interactive event to celebrate achievement and set direction.
- **Creating the Business Excellence Award**—AT&T's highest business honor—that defines world-class performance in terms of customer, people and shareowner satisfaction.
- **Setting the stage for the future** by defining a new way to manage AT&T using quality methods to establish a comprehensive set of companywide goals.

From its start to the restructuring announcement in September 1995 that brought its work to a close, the QDPT included members of the former AT&T Management Executive Committee (MEC) along with AT&T business unit and division heads: Ken Bertaccini (chair), Dana Becker-Dunn, Dick Bodman, Hal Burlingame, Dennis Carey, Bob Carpenter, Dan Carroll, Curt Crawford, Roger Davis, Frank Ianna, Jim Kilpatric, Marilyn Laurie, Bill Oliver, Bill Osl, John Pittman and Paul Wondrasch. The following officers, who have since left the company, also served as QDPT members: Gordon Bridge, Ken Garrett, John Mitcham and Jerre Stead.

The QDPT was supported by Roberta Coleman, Peg Dellinger and Phil Scanlan.

Charity Event Raises Hope and Help for Kids



FELIX BRYANT/AT&T MEDIA SERVICES

Children living with cancer have fun in a play therapy room funded by the Steven Cox Charity Classic golf tournament. Donna Cox, left, and Mike Marion, AT&T employees, join Tomorrows Children's Fund staff and kids at the Hackensack (N.J.) Medical Center.

BY SUZANNE SIDHU

MAKING A POSITIVE IMpact in life is something most people hope to do. But it takes someone special to continue making a difference when his or her life is over. Consider the story of Steven Cox, an AT&T Consumer Markets advertising employee, who passed away four years ago.

He was a regular guy with a nice wife, good family, responsible job. And he infused that life with a special warmth of spirit that impressed people who knew him.

"He was a unique individual," said AT&T colleague Mike Marion, district manager, Marketing Communications. "He was bright and funny, and one of the truly nicest people I've ever known."

Those qualities drew his friends together when he learned in 1989 that he had a rare cancer. College buddies, family members and AT&T colleagues came up with a novel idea to help him and his wife, Donna, also an AT&T employee.

Bag Full of Bills

"We organized a golf tournament to give them a little mad money," Marion said. Eight golfers, sponsored by 100 patrons, raised close to $2,800, delivered to the couple in $1 bills stuffed into a duffel bag.

Cox fought the disease with courage and humor, but lost the battle in 1991, at age 32. Shortly before his death he received the Spirit of Communication Award for his contributions to the company's college marketing program, as well as for the strength he had exhibited during his illness.

"It was after his funeral, in the cemetery parking lot, where the idea for an annual gathering came to us," said Marion, who takes the lead in organizing the event each year. "We decided to continue the golf tournament in his memory and donate the money we raised to charity. That way, the meaning and impact of Steve's life would endure."

It wasn't hard to select the right charity—The Tomorrows Children's Fund, which provides a wide range of services to children being treated for cancer.

Tournament Attracts Support

Each year since its inception the tournament has grown. The 1995 tournament raised $86,000 from 132 participants and 25 corporate sponsors, including AT&T. At its conclusion, Joe Nacchio, executive vice president, Consumer and Small Business Division, presented the check to the charity. Though the event has come a long way from its duffel bag beginnings, its purpose is still the same: to provide relief for those living with cancer.

Last year's contribution helped fund a play therapy room at the Hackensack, N.J., Medical Center, which houses the Tomorrows Children's Institute.

"It's a place where the kids can do something fun," explained Donna Cox, executive program manager, Global Services, Business Markets. She and Marion consulted with Lynn Hoffman, Tomorrows Children's executive director, to earmark a portion of this year's funds to provide food for the families of economically disadvantaged patients.

Another fund will make sure that each child gets a special gift of his or her choice—whatever will make hearts lighter. The balance of the money will help fund the charity's various programs.

"My husband loved kids," Cox said. "He was a kind person and a great man. It's wonderful that people still honor his memory." ■

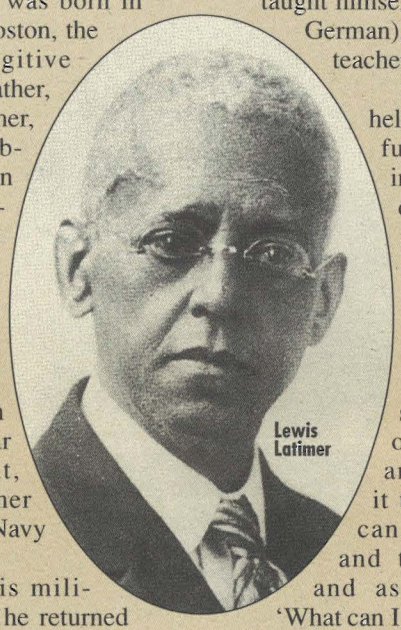
HOW IT BEGAN

African-American Scientist Drafted Patent for First Telephone

BY OLLIE HARTSFIELD

TIMING IS EVERYTHING. On Feb. 14, 1876, Alexander Graham Bell filed the first patent for the telephone—just hours before another inventor, Elisha Gray, filed his idea for a similar device. It was Lewis Howard Latimer, an African-American scientist, engineer and inventor, who drew the patent plans that made Bell's coup, and the subsequent production of Bell's invention, possible.

Latimer was born in 1848 near Boston, the son of fugitive slaves. His father, George Latimer, gained celebrity status in Massachusetts for his efforts to prevent the capture of fugitive slaves. Years later, when the Civil War broke out, Lewis Latimer fought as a Navy seaman.



COURTESY AT&T ARCHIVES

After his military service, he returned to Boston and found work as an office worker for a firm of patent lawyers. Latimer worked his way up and became a master draftsman, engineer and inventor. In 1874, Latimer and W. C. Brown co-invented an improved version of the "water closets," or toilets, then being used on trains. Three years after drafting Bell's telephone patent, Latimer invented a carbon filament to make the electric light bulb longer lasting and more affordable. Latimer also aided in the construction of the first electrical power facilities and supervised the installation of electric street lighting in New York City, Philadelphia, Montreal and London.

Latimer's accomplishments as an engineer and expert in the patent process led Thomas Edison to hire him several years later as a chief draftsman for the Edison Electric Light Co.

When Latimer died in 1928, he had shown himself to be a man of many skills. Besides being a pioneer in the development of electricity, Latimer was a linguist (he taught himself French and German), a poet and a teacher.

"You can help shape your future by taking advantage of present opportunities no matter how small, nor how few they may be," he once said. "Think of your future and plan for it the best you can. But, now and then, pause and ask yourself, 'What can I do today?'"

A bust of Lewis Latimer, commissioned by AT&T and the Alliance of Black Telecommunications Employees, will soon be on display at the AT&T Learning Center in Basking Ridge, N.J. ■

February is Black History Month—a celebration of African-American contributions to the nation and the world. AT&T employees have planned activities, such as speakers, exhibits and films, to share African-American history and culture with the AT&T community. Check local publications and bulletin boards for information about events in your area.

BULLETINBOARD

INTERNATIONAL DIRECTORY—Copies of the 1995 International Key Contact Directory and the 1995/1996 AT&T Regional Employee Directories are still available. The International Key Contact Directory contains information on how to contact more than 3,500 employees in every business unit and division involved with AT&T's global business enterprises. To receive either directory, contact the Customer Information Center at 800-432-6600, fax 800-566-9568. International employees should call 317-322-6557, or fax 317-322-6699.

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